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## **Docket (R-1723) and RIN numbers (7100-AF94)**

### **Question #2:**

"In considering how the CRA's history and purpose relate to the nation's current challenges, how can we strengthen the CRA to address ongoing systemic inequity in credit access for minority individuals and communities?"

### **Introduction**

I'm responding to this one question on behalf of HNA Networks. We are a newly-formed, Illinois-based consultancy dedicated to helping organizations advance comprehensive public-policy solutions needed to create a world sustained by thriving local and regional farm and food economies.

### **Executive Summary**

The Federal Reserve Board of Governors, Congress and the Biden Administration can address myriad interrelated problems by ensuring that local food, nutrition and agriculture initiatives become an integral component of CRA modernization. In 1977, federal policymakers could not have anticipated the depth of current demand for such initiatives in urban, suburban, exurban and rural communities throughout the U.S.

All of the Fed's CRA modernization objectives could be advanced through the inclusion of local food, nutrition, and agriculture initiatives in the resource-delivery programs of Federal Reserve Bank Community Development (CD) Departments. We argue below that the absence of such a strategy impedes the Fed's ability to meet its CD mission to Low and Moderate Income (LMI) households and communities.

### **Background**

In 2017, the St. Louis Federal Reserve Bank acknowledged the local food, nutrition and agriculture trend by co-publishing [this book](#) with the U.S. Department of Agriculture (USDA). The book is entitled "*Harvesting Opportunity: The Power of Regional Food System Investments to Transform Communities.*"

This collaboration with USDA opened the eyes of senior Fed officials to new ways to advance CD goals. In the book's foreword, Fed Board of Governors' member Lael Brainard and St. Louis Federal Reserve Bank president and CEO James Bullard write:

“We...learned that, with appropriately targeted policies and support, the attendant opportunities can advance the economic and financial security of LMI households and communities. What is especially interesting about this work is that the approaches that support the development of regional food systems not only contribute direct economic benefits to the community, but can also open the door for improved access to healthy food and other positive outcomes that could result in improved community health and a more productive workforce.”

In 2017 and 2018, *Harvesting Opportunity* was the topic of a series of forums around the country. Several Federal Reserve District Banks held listening sessions.

USDA and Fed officials expressed the hope that the forums would spark a “national conversation” on food system finance. No such “national conversation” ensued.

For one thing, local food, nutrition, and agriculture constituencies have little to no understanding how to harness the power of the national banking system to advance their own missions. Traditional CD constituencies didn’t see the connection to their own missions. Fed CD Departments moved on, choosing to apply their convening power and research capability to other topics.

Logical stakeholders in the creation of local and regional farm and food financing policy include the Farm Credit Council (FCC), the American Bankers Association (ABA), and the Independent Community Bankers Association (ICBA). Members of these three national trade organizations dominate the U.S. farm financing industry. FCC, ABA, and ICBA collaborate on many federal policy issues—e.g. crop insurance, commodity price supports, rural infrastructure. They do not collaborate on matters that could benefit LMI communities. In fact, they maintain a long-standing feud that impedes the realization of opportunities outlined by Brainard and Bullard.

For context, consider the following legislative history.

The Fed’s CD function was established in 1980 in response to Congressional passage of the CRA. In 1977, today’s demand in LMI communities for local food, nutrition, and agriculture initiatives would have been unimaginable. Equally unimaginable was the need for a Fed community development arm 64 years earlier when Congress authorized establishment of a national banking system through the Federal Reserve Act of 1913.

Three years later, Congress passed—and once again President Woodrow Wilson signed—another piece of landmark financial legislation. The Federal Farm Loan Act of 1916 led to the establishment of the Farm Credit System (FCS). Its ownership structure gave rise to an entity type known as the Government Sponsored Enterprise (GSE). The second GSE—the Federal Home Loan Bank—was established in 1932.

In 1933, Congress enacted the first so-called omnibus legislation known as the Farm Bill. One provision authorized the creation of the Farm Credit Administration. FCA—an independent federal agency that oversees FCS—derives its authority from the Farm Credit Act of 1971, as amended.

The FCS obtains loan funds from the securities sold by its fiscal agent--the Federal Farm Credit Banks Funding Corporation--in Wall Street's capital debt markets. Both the ABA and ICBA frequently charge that FCS uses the implicit guarantee of the federal government to lower its cost of lendable capital. They say cheap money enables Farm Credit to undercut banker competition and "cherry pick" well-collateralized borrowers. And they have long argued that FCS should use its federal subsidies to focus on below-market-rate borrowers. They finally made headway in the aftermath of the CRA.

In 1980, Congress enacted legislation requiring FCS lenders to prepare a program for furnishing "sound and constructive credit and related services" to Young, Beginning and Small (YBS) farmers and ranchers. Congress did not, however, include specific legally enforceable mandates—nor even a timetable for implementation.

In 1999, FCS finally released a YBS oversight plan. Nineteen years after getting its marching orders from Congress, the FCA declared that YBS programming would become a "focus area" for agency examinations of System institutions.

Twenty more years went by before the federal regulator addressed private bankers' complaint that the FCS inflate YBS data to exaggerate performance in meeting its Congressional "mission." In 2019, the FCA conceded the long-standing "over counting problem" and launched a process to "improve the accuracy of YBS data and reporting. (For more on this topic, read ["Can Agriculture's GSE overcome a history of missed opportunities and fulfill its mission from Congress?"](#))

In the run-up to the 2018 federal Farm Bill, banking lobbies had made their case against Farm Credit's poor performance on YBS in hearings before the U.S. Senate Committee on Agriculture, Nutrition, & Forestry, and the U.S. House Committee of Agriculture. Findings from *Harvesting Opportunity* were not part of the discussion, which means policymakers were not presented with any information that might enable them to connect the dots between Farm Credit's YBS obligations and bankers' CRA requirements. As a result, Congress took no action in the 2018 Farm Bill to incentivize more effective delivery of financial services to YBS producers in LMI communities.

Our conversations with representatives from FCC, ABA and ICBA suggest that the established farm financing industry is uninterested in serving YBS producers in LMI com-

munities. However, there is keen interest among representatives of Community Development Financial Institutions.

CDFIs have become active in this market over the last decade through participation in the federal Healthy Food Financing Initiative. HFFI has helped many CDFIs provide technical assistance and capital for value-added food and grocery enterprises. But HFFI is underfunded. And CDFIs lack farm-production lending capability.

Congressional policymakers leading the CRA modernization process would be well-advised to build bridges to the many food and ag programs and legislative authorities that Congress will next take up in the 2023 Farm Bill. Local food, nutrition and agriculture initiatives offer an effective mechanism to address one of the overarching criticisms of the current CRA—that financial services be made more readily accessible to the LMI communities with the greatest need.

### **Recommendations**

- Explore ways to align relevant FCA regulatory functions within the Fed’s proposal to provide a foundation for the three banking agencies—the Fed, OCC, and FDIC—converge on a consistent approach to a more effective CRA regulatory structure.
- Develop/implement strategies to help broaden the public, private and civic sector support that CDFIs need to realize their vision to “democratize finance”—for example, by promoting collaboration and coordination between the CD Departments in each of the each of the 12 Fed District Banks with the CD functions carried out through Regional Councils of Government.
- Encourage a public dialogue process to consider the feasibility that commercial and community banking institutions might earn CRA credit for assisting Farm Credit in meeting its Congressional mission to YBS farmers and ranchers in LMI communities
- Explore the feasibility for CDFIs and other mission-driven financial institutions to take on Farm Credit’s GSE obligations under certain circumstances where LMI communities lack access to the financing and related services needed to ensure that local food, nutrition and agriculture initiatives can achieve their full potential as a foundational component of the next generation of community development throughout the U.S.